

**MINUTES OF THE REGULAR MEETING OF THE  
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON  
Friday, August 17, 2001  
8:30 a.m. MST**

The Arizona State Retirement System (ASRS) Board met in the 10<sup>th</sup> Floor Board Room of the ASRS office at 3300 North Central Avenue, Phoenix, Arizona 85012. Dr. Chuck Essigs, ASRS Board Member, called the meeting to order at 8:30 a.m., MST.

The meeting was teleconferenced to the ASRS office, 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

**1. Call to Order; Roll Call.**

Present: Dr. Chuck Essigs  
Dr. Merlin DuVal  
Ms. Bonnie Gonzalez  
Mr. Alan Maguire (arrived at 8:32 a.m.)  
Mr. Karl Polen  
Mr. Ray Rottas

Excused: Mr. Jim Bruner  
Mr. Jim Jenkins  
Mr. Norman Miller

A quorum was present for the purpose of conducting business.

**2. Approval of Minutes of the June 14, 2001 Regular Meeting of the ASRS Board**

**Motion:** Mr. Ray Rottas requested the minutes of the June 14, 2001 regular meeting of the ASRS Board be amended and moved to postpone the approval of the minutes until the next Board meeting.

Ms. Bonnie Gonzalez seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 4 excused, the motion was approved.

### 3. Board Approval of Consent Schedule.

**Motion:** Ms. Bonnie Gonzalez moved that the ASRS Board approve the summary report of Retirements, Refunds and Death Benefits, Representative Payee Request, the Contract Extension of the Following Investment Managers:

- |                                     |                                    |
|-------------------------------------|------------------------------------|
| 1) Bank of Ireland                  | International Active Equity        |
| 2) Bank One                         | Fixed Income Active                |
| 3) Brandes Investment Partners      | International Active Equity        |
| 4) Capital Guardian                 | International Active Equity        |
| 5) Axe-Houghton                     | International Adr Enhanced Passive |
| 6) Barclays Global Investors        | International Passive              |
| 7) BlackRock Financial Management   | Fixed Income Active                |
| 8) JP Morgan                        | Fixed Income Active                |
| 9) Western Asset Management Company | Fixed Income Active                |
| 10) Barclays Global Investors       | Fixed Income Passive               |

and Application and Agreements with the Following Employers:

- 1) Yavapai County Accommodation School District #99
- 2) Avra Valley Fire District
- 3) Aprender Tucson dba Southside Community School
- 4) Tourism And Sports Authority
- 5) Gila Institute For Technology
- 6) Masada Charter School, Inc.
- 7) Griffin Foundation, Inc. dba Children Reaching For The Sky Charter School
- 8) Pinnacle Education, Inc. dba Westmark High Schools
- 9) Benchmark Elementary
- 10) Gila Resources

Dr. Merlin DuVal seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 4 excused, the motion was approved.

**Mr. Alan Maguire arrived at 8:32 a.m.**

### 4. Presentation, Discussion and Appropriate Action Regarding the Total Fund Performance for the Period Ending June 30, 2001.

Mr. Terry Dennison, Principal, Mercer Investment Consulting gave an economic overview and presented the ASRS Total Fund Performance for the period ending June 30, 2001.

#### *Total Fund Performance for Periods Ending June 30, 2001*

	Qtr	1 Year	3 Years	5 Years	10 Years
<b>Total ASRS Fund</b>	4.2%	-6.7%	6.2%	11.9%	12.6%
<b>Benchmark*</b>	3.1	-8.9	3.8	10.0	11.0
<b>TUCS Public Fund Median</b>	3.3	-5.4	4.8	10.4	11.3

\*1/1/89-12/31/91 is 60% S&P 500/40% LB Aggregate.

1/1/92-12/31/94 is 50% S&P 500/40% LB Aggregate/10% EAFE,

1/1/95-6/30/97 is 45% S&P 500/40% LB Aggregate/15% EAFE,

7/1/97-12/31/99 is 50% S&P 500/35% LB Aggregate/15% EAFE, and

1/1/00-Present is 53% S&P 500/30% LB Aggregate/17% EAFE.

***Performance vs. Benchmarks for the 3 Years Ending June 30, 2001***

	<b>Return</b>	<b>Assumed ROR</b>	<b>Std.Dev.</b>	<b>Assumed Std. Dev.</b>
<b>Total ASRS Fund</b>	6.2%	8.4%	13.6%	11.8%
<b>Benchmark</b>	3.8		12.3	
<b>Domestic Fixed</b>	6.1	5.6	3.8	5.3
<b>LB Aggregate</b>	6.2		3.6	
<b>Domestic Equity</b>	5.4	9.4	20.7	16.3
<b>S&amp;P 500</b>	3.9		20.1	
<b>Intl Equity</b>	5.6	10.0	22.5	21.5
<b>EAFE</b>	-0.9		21.1	

***Performance vs. Benchmarks for the 5 Years Ending June 30, 2001***

	<b>Return</b>	<b>Assumed ROR</b>	<b>Std.Dev.</b>	<b>Assumed Std. Dev.</b>
<b>Total ASRS Fund</b>	11.9%	8.4%	12.1%	11.8%
<b>Benchmark</b>	10.0		11.1	
<b>Domestic Fixed</b>	7.5	5.6	3.7	5.3
<b>LB Aggregate</b>	7.5		3.3	
<b>Domestic Equity</b>	15.0	9.4	18.0	16.3
<b>S&amp;P 500</b>	14.5		17.8	
<b>Intl Equity</b>	7.1	10.0	19.7	21.5
<b>EAFE</b>	3.2		18.7	

Mr. Ray Rottas noted that some large corporations are reinvesting in the company instead of providing dividends to shareholders and asked how this practice would affect interest rates and returns. Mr. Dennison replied that it has been a trend over the past ten years for companies to reinvest because they believe they can add more total wealth to shareholders by increasing stock value and avoiding taxation. However, since stock prices are down, the money that was reinvested has diminished somewhat in value and there is less flow of income to shareholders, especially retirees, and has a depressive effect on the economy.

**5. Presentation, Discussion and Appropriate Action Regarding the Performance of Fixed Income Managers for the Period Ending June 30, 2001.**

Mr. Terry Dennison, Principal, Mercer Investment Consulting, Inc., reported on the investment manager's performance for the Arizona State Retirement System (F1), the Arizona State Retirement System (F2), Barclays Global Investors (BGI), BlackRock Financial Management, JP Morgan Investment Management, Inc., and Western Asset Management Company (WAMCO) for the period ending June 30, 2001.

Mr. Gary R. Dokes, Portfolio Manager, and Ms. Lupita Breland reported on the Arizona State Retirement System's (F1) performance for the period ending June 30, 2001.

	<b>Qtr Ending 6/30/01</b>	<b>1 Year</b>	<b>3 Years</b>	<b>Inception*</b>
<b>F1 Net Return</b>	0.48	11.20	6.21	6.47
<b>LB Agg Index</b>	0.56	11.23	6.22	6.50
<b>Value Added over Benchmark</b>	<b>-0.08</b>	<b>0.03</b>	<b>0.03</b>	<b>-0.03</b>

\*From 3/31/98 (annualized)

Mr. Dokes and Ms. Breland also reported on the Arizona State Retirement System's (F2) performance for the period ending June 30, 2001.

	<b>Qtr Ending 6/30/01</b>	<b>YTD01</b>	<b>Inception*</b>
<b>F2 Net Return</b>	0.41	3.28	7.76
<b>LB Agg Index</b>	0.56	3.62	7.97
<b>Value Added over Benchmark</b>	<b>-0.15</b>	<b>-0.34</b>	<b>-0.21</b>

\*From 10/01/00 (three quarters)

Mr. David Lissek, Principal, Institutional Client Relations, and Mr. Vache Mahseredjian, Principal, Fixed Income Investment Strategist, reported on BGI's performance for the period ending June 30, 2001.

	<b>Qtr Ending 6/30/01</b>	<b>1 Year</b>	<b>Inception to Date</b>	<b>Inception*</b>
<b>Intermediate Gov Fund (Net)</b>	0.44%	10.58%	6.43%	11/30/95
<i>LB Intermediate Gov Index</i>	<i>0.42</i>	<i>10.42</i>	<i>6.35</i>	
<b>Intermediate Credit Fund (Net)</b>	1.07	12.17	6.56	11/30/95
<i>LB Intermediate Credit Index</i>	<i>1.01</i>	<i>11.93</i>	<i>6.52</i>	
<b>Long Credit Fund (Net)</b>	1.16	13.13	6.27	11/30/95
<i>LB Long Credit Index</i>	<i>1.22</i>	<i>13.11</i>	<i>6.41</i>	
<b>Long Gov Bond Fund (Net)</b>	-1.71	10.40	9.04	7/31/99
<i>LB Long Gov Index</i>	<i>-1.75</i>	<i>10.16</i>	<i>8.90</i>	
<b>Mortgage-Backed Securities (Net)</b>	0.81	11.18	7.17	11/30/95
<i>LB Mortgage-Backed Securities Index</i>	<i>1.02</i>	<i>11.28</i>	<i>7.12</i>	
<b>Asset-Backed Fund (Net)</b>	1.05	N/A	2.04	8/30/00
<i>LB Asset-Backed Index</i>	<i>1.07</i>	<i>N/A</i>	<i>2.08</i>	
<b>Commercial-Backed Securities Fund (Net)</b>	0.26	N/A	10.44	8/30/00
<i>LB Commercial-Backed Securities Index</i>	<i>0.31</i>	<i>N/A</i>	<i>10.48</i>	

Mr. Andrew Phillips, Managing Director and Senior Portfolio Manager, and Ms. Sandra Familet, Director, reported on BlackRock's performance for the period ending June 30, 2001.

	<b>Qtr Ending 6/30/01</b>	<b>Rolling 1 Year</b>	<b>Inception*</b>
<b>Duration/Yield Curve</b>	-0.15%	-0.37%	-0.07%
<b>Security Selection/Sector</b>	0.19	0.83	0.44
<b>Fees**</b>	-0.04	-0.16	-0.16
<b>Total Value Added Relative to Benchmark</b>	<b>0.00</b>	<b>0.30</b>	<b>0.21</b>

\*11/30/98 (annualized)

\*\*Straight line method used

Mr. E. Luke Farrell, Portfolio Manager, reported on JP Morgan Investment Management, Inc.'s performance for the period ending June 30, 2001.

	<b>Qtr Ending 6/30/01</b>	<b>One Year</b>	<b>Three Years</b>	<b>Five Year</b>
<b>Duration Management</b>	-0.28%	0.32%	0.43%	0.31%
<b>Sector Emphasis</b>	0.07	0.35	0.12	0.07
<b>Security Selection</b>	-0.12	-0.05	-0.20	-0.20
<b>Fees</b>	-0.03	-0.16	-0.15	-0.16
<b>Total Value Added Relative to Benchmark</b>	<b>-0.36</b>	<b>0.46</b>	<b>0.20</b>	<b>0.02</b>

Mr. Joseph Carieri, Client Service Executive reported on WAMCo's performance for the period ending June 30, 2001.

<b>Relative Performance (bps)</b>	<b>Qtr Ending 6/30/01</b>	<b>One Year</b>	<b>Since Inception (12/3/98)</b>
<b>Duration</b>	-0.16	0.22	-0.05
<b>Yield Curve</b>	0.02	-0.10	0.08
<b>Sector Selection</b>	0.09	0.38	0.16
<b>Issue Selection</b>	0.13	0.64	0.24
<b>Fees</b>	-0.04	-0.17	-0.19
<b>Total Value Added Relative to Benchmark</b>	<b>0.04</b>	<b>0.97</b>	<b>0.24</b>

## 6. Presentation, Discussion and Appropriate Action Regarding the Recommendation of Contract Award for Dental Insurance

**Motion:** Dr. Merlin DuVal moved that the Board convene to Executive Session to discuss the contract award for dental insurance.

Mr. Ray Rottas seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 3 excused, the motion was approved.

The ASRS Board convened to Executive Session at 10: 31 a.m.

The Board reconvened to Regular Session at 11 a.m.

**Motion:** Dr. Merlin DuVal moved that the Board award the contract for comprehensive and limited indemnity dental plans to Protective DentalCare and approve the Protective Alternate Pre-Paid Plan as recommended by the Evaluation Committee and the Long-Term Disability and Health Insurance Board Committee.

Mr. Ray Rottas seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 3 excused, the motion was approved.

Dr. DuVal announced that the new dental program goes into effect January 1, 2002 and offers significant improvements over the current plan. Under the Protective plan, payments will increase to the 80<sup>th</sup> percentile, the annual benefit level will increase from \$1000 to \$2000 and more services will be covered under Basic Dental Services.

Dr. Essigs commended Dr. DuVal and the Board committee, as well as staff and the Evaluation Committee, which included retirees and individuals representing retiree organizations - people who will be impacted by the change and who will be using the services. He also complimented the insurance vendors for submitting a variety of proposals.

**7. Discussion and Appropriate Action Regarding the Amendment of Exhibit L of Rule R2-8-126 "Multiples of Pay Factors for Determining the Actuarial Liability of a Transferring Member's Benefit"**

Mr. Fred Stork, Assistant Attorney General, informed the Board that this was the final step in the administrative procedure for adopting a rule amendment regarding transfer factors used to calculate the benefits of members who transfer into or out of the ASRS. The notice of proposed rulemaking was filed and published in the Administrative Record in June, but the ASRS has not received any comments or questions or requests for hearings. Mr. Stork recommended the Board adopt a resolution amending the rule so that the ASRS may file the notice of final rulemaking.

**Motion:** Mr. Ray Rottas moved that the Board adopt an amendment to Exhibit L to Rule R2-8-126, "Multiples of pay factors for determining the actuarial liability of a transferring member's benefit," and that the director file with the secretary of state the notice of final rulemaking.

Dr. Merlin DuVal seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 3 excused, the motion was approved.

**8. Director's Report**

Mr. LeRoy Gilbertson, Director, presented Ms. Jan Holt, Comptroller, with the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting for Fiscal Year ending 1999. He noted that this is the twelfth consecutive year that

the ASRS has met the strict reporting guidelines and congratulated the staff for their efforts.

**Mr. Ray Rottas was excused at 11:19 a.m.**

Dr. Merlin DuVal called attention to a chart included in the Board reports that indicates that one-half of all incoming calls to the Member Services call center are abandoned by the caller and asked about options to address the problem so as not to compromise the excellent service the Member Services Division provides. Mr. Gilbertson explained that there are an increased number of calls and ones that last longer because people are asking more questions, which increases the call waiting time. The ASRS is in the process of training and hiring additional staff and is also investigating other alternatives in order to provide better service to members.

Mr. Anthony Guarino, Deputy Director, Chief Operations Officer, added that the ASRS is evaluating the types of calls and questions that are coming in, creating scripts for staff to follow so that the talk time is decreased, and looking at the possibility of outsourcing portions of the call center or hiring contract personnel. The ASRS also hopes to utilize Web-based solutions, including question/answer presentations, standardized email responses, and calculators for benefit estimates and service purchase. Mr. Guarino said he is reviewing over 50 possible presentations.

Dr. DuVal also observed that the number of benefit estimate requests is increasing, yet the number completed is lagging and asked how the staff is able to catch up as the load increases. Mr. Guarino noted that these issues are related to the phone issue because the same staff that answers calls are the ones completing benefit estimates, counseling, etc. Dr. Essigs noticed that the turnaround time is still consistent but the number of requests is increasing. Mr. Guarino agreed that the staff has thus far been able to stay within the service objectives.

Mr. Karl Polen asked whether the ASRS, as it expands its space in the 3300 Tower, is paying more rent from its appropriated budget to the investment account. Mr. Matson answered that the ASRS will be paying market rent on the square footage it occupies. Mr. Polen also asked about over-budget expenses for the ASRS expansion. Mr. Matson said he would provide additional materials to Mr. Polen regarding the status of over-budget expenses.

**9. Board Requests for Agenda Items**

There were no requests for future agenda items from Board members.

**10. Call to the Public.**

Mr. Keith Stompro, of Phoenix, asked three questions about the ASRS policies on alternative investments, opportunities for investing in Arizona companies, and the statute that allows the Arizona Department of Commerce to direct a percentage of the funds assets to economic development. Mr. Paul Matson, Chief Investment Officer, responded that the ASRS has zero assets in alternative investments because investments are based on liquidity and are diversified within each asset class. He also stated that the obligation of the Board and the fund is to make investments that benefit the members so investment decisions are not based on in-state or out-of-state investments. Finally, Mr. Matson explained that Arizona Revised Statute 38-719 puts forth a maximum eligible that the ASRS may invest in economic

development, and the ASRS currently has a zero percent allocation to those types of investments.

There were no requests to speak from the Tucson public.

**11. The next ASRS Board meeting is scheduled for Friday, September 21, 2001 at 8:30 a.m. in the 10<sup>th</sup> Floor Board Room of the ASRS office at 3300 North Central Avenue, Phoenix, Arizona 85067-3910.**

**12. Adjournment of the ASRS Board.**

Dr. Chuck Essigs adjourned the August 17, 2001 meeting of the ASRS Board at 11:27 a.m.

Respectfully submitted,

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Maurah Harrison, Secretary

Date

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LeRoy Gilbertson, Director

Date